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MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

March 31, 2004

MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

March 31, 2004

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APPOINTIVE OFFICIALS

Gerald J. LaChere, Lottery Director

L. John Onstad, Lottery Assistant Director for Security

LOTTERY COMMISSION		TERM EXPIRES
Clifford Brophy	Columbus	January 1, 2005
Donald Sterhan	Billings	January 1, 2005
Tom Keegan	Helena	January 1, 2006
Betty Wilkins	Missoula	January 1, 2006
Robert Crippen	Butte	January 1, 2007

REPORT DISTRIBUTION

According to Section 23-7-202(9), MCA, copies of this report must be distributed to the following:

Governor - Judy Martz
Acting Director of Dept. of Administration – Steve Bender
Legislative Auditor - Scott Seacat
President of the Senate – Bob Keenan
Speaker of the House – Doug Mood

The law also states "the President of the Senate and the Speaker of the House will determine the report distribution to each member of the appropriate committee of each house of the legislature".

The President of the Senate and the Speaker of the House have requested that this report be distributed to the following committees:

HOUSE – State Administration Committee

Debby Barrett, Chair
Dee Brown, Vice Chair Majority
Larry Jent, Vice Chair Minority
Norman Ballantyne
Arlene Becker
Sue Dickenson
Carol Gibson
Dan Hurwitz
Hal Jacobson
Larry Lehman
Ralph Lenhart
Alan Olson
Bernie Olson
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Jonathan Windy Boy
Cindy Younkin

HOUSE – Business & Labor Committee

Joe McKenney, Chair
Don Steinbeisser, Vice Chair Majority
Jim Keane, Vice Chair Minority
Bob Bergren
Rod Bitney
Sylvia Bookout-Reinicke
Nancy Rice Fritz
Dave Gallik
Kathleen Galvin-Halcro
Ray Hawk
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Dale Mahlum, Chair
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Vicki Cocchiarella
Kelly Gebhardt
Bob Keenan
Sam Kitzenberg
Ken Hansen
Glenn Roush
Don Ryan
Carolyn Squires
Fred Thomas

Montana Lottery

June 2004

Montana Lottery Commission:

The Lottery will transfer $1,517,074 to the General Fund as a result of operations in the third quarter of fiscal year 2004 compared to $1,906,423 for the same time period last year. Through the first nine months of the year the total transfer of $6,126,741 represents 86.8% of the budgeted transfer amount. For the year, scratch tickets, Powerball, Montana Cash and Hot Lotto all are experiencing increased sales, with Wild Card as the only product showing a decrease. Overall revenues are $1,776,644 or 6.8% ahead of last year.

The new Qwik Tix product line was introduced in February with sales of $243,552 for the quarter. These sales are not as high as budgeted and the product line is not performing to expectations. We continue to work on options for increasing sales.

Direct game costs do show some variability between quarters due to the return of Powerball reserves in the 2nd quarter of this year and the return of an unclaimed Powerball prize in the 3rd quarter of last year. Total unclaimed prizes for all products for the first nine months of both years are approximately even. Net operating revenue held steady at 33.0% of revenue compared to 32.6% last year.

Total operating expenses for the quarter of $1,071,194 were slightly higher as opposed to last year's quarterly total of $941,155 but are still below budgeted amounts for the year. Operating expenses for the year are also slightly above last year (approximately 5.9%) but compare favorably to the budget at 70.6% of total budgeted expenditures for the year.

Sincerely,

Gerald J. LaChere

Gerald J. LaChere
Director

2525 North Montana Avenue • Helena, MT 59601-0598
Phone 406-444-LUCK (5825) • Fax 406-444-5830

MONTANA LOTTERY
STATEMENT OF NET ASSETS
MARCH 31, 2004 and 2003
(UNAUDITED)

	Period Ended March 31, 2004	Period Ended March 31, 2003
ASSETS:		
CURRENT ASSETS		
Cash and Cash Equivalents	$ (24,146)	$ 391,997
Receivables (Net)	1,162,728	1,139,607
Due from Other Funds	0	0
Inventories	707,194	834,429
Other Current Assets	12,689	11,966
TOTAL CURRENT ASSETS	1,864,465	2,377,999
NONCURRENT ASSETS		
Computer, Furniture & Equipment	6,570,960	6,549,320
Accumulated Depreciation	(3,715,069)	(2,862,054)
Software, net of Amortization	328,571	492,857
Multi-State Receivable	1,294,228	1,728,215
TOTAL NONCURRENT ASSETS	3,478,690	4,908,338
TOTAL ASSETS	$ 5,343,155	$ 7,286,337
LIABILITIES:		
CURRENT LIABILITIES		
Accounts Payable	$ 295,191	$ 340,563
Estimated Prize Liability	1,468,545	1,656,165
Due to Other Funds	261,376	8,319
Transfer Obligations	1,517,074	1,906,423
Deferred Revenue	64,124	112,600
Current Portion Comp. Absences	107,343	101,424
Current Portion Long-Term Debt	282,774	1,095,810
TOTAL CURRENT LIABILITIES	3,997,426	5,223,294
NONCURRENT LIABILITIES		
MUSL Prize Liability	1,276,515	1,699,807
Note Payable	0	282,775
Accrued Compensated Absences	79,214	80,961
TOTAL NONCURRENT LIABILITIES	1,355,729	2,063,543
TOTAL LIABILITIES	5,343,155	7,286,837
NET ASSETS		
Unrestricted Net Assets	0	0
TOTAL LIABILITIES AND NET ASSETS	$ 5,343,155	$ 7,286,837

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE QUARTERS ENDED MARCH 31, 2004 and 2003
(Unaudited)

	Quarter Ended March 31, 2004	Quarter Ended March 31, 2003	Nine Months Ended March 31, 2004	Nine Months Ended March 31, 2003
OPERATING REVENUES:				
Instant ticket revenue	$ 2,567,849	$ 2,550,192	$ 7,831,708	$ 7,569,448
Powerball revenue	3,404,786	3,306,980	13,191,052	12,296,331
Montana Cash revenue	1,052,471	938,840	3,112,843	2,744,848
Wild Card revenue	630,031	559,954	1,775,510	1,842,650
Hot Lotto/Rolldown revenue	563,912	541,126	1,776,542	1,589,833
Qwik Tix revenue	243,552	0	243,552	0
900 # Income	0	(493)	0	9,064
License, permits, and misc	600	2,020	1,455	3,844
Total Operating Revenues	8,463,201	7,998,619	27,932,662	26,156,018
Less Direct Game Costs:				
Instant ticket prize expense	(1,624,317)	(1,455,111)	(4,901,193)	(4,453,633)
On-line ticket prize expense	(2,889,856)	(2,296,773)	(9,415,112)	(8,380,086)
Retailer commission	(481,634)	(467,996)	(1,599,502)	(1,539,723)
Cost of tickets sold	(182,099)	(194,116)	(548,436)	(547,935)
Vendor fees	(704,464)	(655,096)	(2,337,010)	(2,195,518)
Net Operating Revenue	2,580,831	2,829,527	9,231,409	8,539,123
OPERATING EXPENSES:				
Advertising	255,040	140,426	501,698	403,052
Advertising Production	20,847	29,362	107,118	82,067
Audit Fees	2,909	4,989	38,665	22,961
Bad Debts Expense	2,032	(23)	1,964	(113)
Communications	27,589	20,588	64,758	63,276
Contractual Services	23,475	19,188	150,444	89,282
Depreciation and Amortization	266,194	264,367	797,316	786,038
Interest Expense	4,492	17,964	24,435	65,467
Administrative Service Fee	13,572	23,629	40,717	59,073
State Cost Recovery	5,055	2,104	8,100	6,312
Multi-State Dues	0	0	91,967	89,435
Public Relations	4,211	1,802	16,343	22,092
Other	7,221	7,349	16,146	19,559
Personal Services	349,282	348,217	1,054,845	1,036,477
Repairs and Maintenance	1,656	(1,418)	14,489	16,851
Supplies and Materials	58,163	33,347	113,799	93,878
Travel	2,609	3,568	7,527	19,421
Utilities and Rent	26,837	25,696	81,085	76,920
Total Operating Expense	1,071,194	941,155	3,131,416	2,956,068
Operating Income	1,509,637	1,888,372	6,099,993	5,583,055
NONOPERATING REVENUES (EXPENSES)				
Interest earnings	7,437	18,051	31,324	59,414
Gain/Loss on sale of asset	0	0	(4,576)	(460)
Total Nonoperating Revenues(Expenses)	7,437	18,051	26,748	58,954
Income Before Operating Transfers	1,517,074	1,906,423	6,126,741	5,642,009
Operating Transfers In (Out) - General Fund	(1,517,074)	(1,906,423)	(6,126,741)	(5,642,009)
CHANGE IN NET ASSETS	0	0	0	0
Total Net Assets, Beginning of Period	0	0	0	0
TOTAL NET ASSETS, END OF PERIOD	0	$ 0	$ 0	$ 0

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET FUND ASSETS
AND RECONCILIATION OF BUDGET AND ACTUAL (BUDGETARY BASIS) TO GAAP BASIS
FOR THE NINE MONTHS ENDED MARCH 31, 2004
(Unaudited)

	Budget Fiscal Year July 1, 2003 - June 30, 2004	Actual Nine Months Ended March 31, 2004 (Unaudited)	Actual as a Percent of Final Budget (%)
REVENUES:			
Instant ticket revenue	$ $10,250,000	$ 7,831,708	76.41
Powerball revenue	16,500,000	13,191,052	79.95
Montana Cash revenue	3,600,000	3,112,843	86.47
Wild Card revenue	2,400,000	1,775,510	73.98
Hot Lotto revenue	2,100,000	1,776,542	84.60
Qwik Tix	1,600,000	243,552	15.22
License, permits, and miscellaneous	2,000	1,455	72.75
Total Revenues	36,452,000	27,932,662	76.63
DIRECT GAME COSTS:			
Prizes - instant ticket	6,047,500	4,801,193	79.39
Prizes - on-line games	13,158,000	9,415,112	71.55
Retailer commissions	2,130,000	1,599,502	75.09
Ticket cost - instant games	743,125	548,436	73.80
Ticket cost - vendor fees	3,043,575	2,337,010	76.79
Total Direct Game Costs	25,122,200	18,701,253	74.44
OPERATING EXPENSES:			
Advertising	670,035	501,698	74.88
Advertising Production	177,200	107,118	60.45
Audit Fees	25,259	38,665	153.07
Communications	84,590	64,758	76.56
Contractual Services	376,200	150,444	39.99
Interest Expense	35,740	24,435	68.37
Administrative Service Fee	54,269	40,717	75.00
State Cost Recovery	6,091	8,100	132.98
Multi-State Dues	126,492	91,967	72.71
Public Relations	18,525	16,343	88.22
Other	14,967	16,146	107.88
Personal Services	1,391,020	1,056,063	75.92
Repairs and Maintenance	29,810	14,489	48.60
Supplies and Materials	160,490	113,799	70.91
Travel	21,706	7,527	34.68
Utilities and Rent	110,080	81,065	73.66
Equipment	48,735	32,699	67.10
Total Operating Expenses	3,351,529	2,366,053	70.60
Operating Income	7,978,271	6,865,356	86.05
NONOPERATING REVENUES (EXPENSES):			
Interest Earnings	0	8,162	
Loss on Sale on Asset		(4,576)	
NET INCOME (BUDGETARY BASIS)	$ 7,978,271	$ 6,868,942	86.10
RECONCILIATION OF BUDGETARY/GAAP BASIS:			
1. Capitalized equipment purchases	48,735	32,699	67.10
2. Adjustment for compensated absences		1,218	
3. Adjustment for depreciation expense	(1,039,926)	(797,316)	76.67
4. Bad Debts		(1,964)	
5. MUSL interest earnings	70,000	23,162	33.09
Total Reconciling Items	(921,191)	(742,201)	
NET INCOME (GAAP BASIS)	$ 7,057,080	$ 6,126,741	86.82

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
ANALYSIS OF REVENUES AND EXPENSES BY PRODUCT
FOR THE NINE MONTHS ENDED MARCH 31, 2004
(UNAUDITED)

	INSTANT	POWERBALL	MONTANA CASH	WILD CARD	HOT LOTTO	QWIK FIX	ADMIN
REVENUES:	$ 7,831,708	$ 13,191,052	$ 3,112,843	$ 1,775,510	$ 1,776,542	$ 243,552	$ 1,455
DIRECT GAME COSTS:							
Prize Expense	4,801,194	5,814,503	1,655,315	938,823	855,493	150,977	0
Retailer Commissions	594,053	659,884	155,664	88,785	88,837	12,279	0
Cost of Tickets Sold	548,436	0	0	0	0	0	0
Vendor Fees	697,766	1,120,866	260,670	148,860	148,711	20,337	0
NET OPERATING REVENUE	1,250,259	5,595,799	1,041,194	599,242	683,501	59,959	1,455
OPERATING EXPENSES:							
Advertising	51,162	195,430	22,928	22,928	50,827	158,300	123
Advertising Production	6,625	8,128	5,365	5,364	5,391	76,245	0
Audit Fees	0	0	0	0	0	0	38,665
Bad Debts	0	0	0	0	0	0	1,964
Communications	34,820	111	111	111	111	46	29,448
Contractual Services	7,513	996	995	996	996	39,625	99,323
Depreciation and Amortization	224,562	370,840	87,936	50,405	50,434	9,725	3,414
Interest	6,842	11,546	2,725	1,554	1,555	213	0
Administrative Service Fee	13,019	3,841	3,120	2,106	2,094	3,559	12,977
State Cost Recovery	0	0	0	0	0	0	5,100
Multi-State Dues	0	14,504	0	20,877	10,041	0	46,845
Public Relations	3,688	2,449	2,449	2,449	2,449	1,021	1,838
Other	318	0	0	0	0	428	15,402
Personal Services	337,276	99,519	80,826	54,551	54,238	92,203	336,232
Repairs and Maintenance	0	0	0	0	0	0	14,459
Supplies and Materials	9,136	1,581	1,394	1,446	1,446	529	98,267
Travel	0	0	0	0	0	0	7,527
Utilities and Rent	0	0	0	0	0	0	81,085
TOTAL OPERATING EXPENSES	694,959	708,945	207,849	162,487	179,582	381,894	795,699
OPERATING INCOME	555,300	4,886,854	833,345	436,755	503,919	(321,935)	(794,244)
NONOPERATING REVENUES (EXPENSES)							
Interest Earnings	0	0	0	0	0	0	31,324
Gain/Loss) on Sale of Asset							(4,576)
TOTAL NONOPERATING REVENUES (EXPENSES)	0	0	0	0	0	0	26,748
NET INCOME BY PRODUCT	$ 555,300	$ 4,886,854	$ 833,345	$ 436,755	$ 503,919	(321,935)	$ (767,496)
PROFIT AS A % OF REVENUE	7.09%	37.05%	26.77%	24.60%	28.37%	-132.18%	N/A

NOTE: THIS IS ONLY NINE MONTHS' ACTIVITY AND THEREFORE SHOULD NOT BE INTERPRETED TO SHOW HOW OUR PRODUCTS HAVE PERFORMED IN PAST YEARS OR WILL PERFORM IN THE FUTURE.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity.

The Montana Lottery, established under the provisions of Section 23-7-101, Montana Code Annotated (MCA), was approved by the Montana electorate through Legislative Referendum No. 100 on November 4, 1986.

Montana's first lottery tickets went on sale June 24, 1987.

The Montana Lottery is operated by a five-member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games in conjunction with other lottery states and countries, and prepare financial reports. The Montana Lottery is attached to the Montana Department of Administration for administrative purposes.

The Montana Lottery is included as an enterprise fund in the State of Montana's Comprehensive Annual Financial Report. In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Montana Lottery's financial statements as a reporting agency.

Basis of Presentation. The Montana Lottery reports its financial activity in accordance with generally accepted accounting principles (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

Enterprise Fund. The Montana Lottery is classified as an Enterprise Fund of the Governmental Proprietary Fund Type. Enterprise Funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Basis of Accounting. The Montana Lottery's financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Revenue Recognition. Lottery scratch ticket sales are recorded as revenue based on the time the retailer activates the pack of tickets for sale. In accordance with an established policy, retailers may return unsold tickets to the Lottery for credit. Sales are decreased by an allowance for estimated ticket returns.

Ticket sales for lotto games, Powerball, Wild Card, Montana Cash, and Hot Lotto are recorded as revenue based on drawings. Tickets sold in advance for future drawings are recorded as deferred revenue until such time as the tickets become valid for the most current drawing. Qwik Tix revenue is recognized at the time of sale by the retailers.

Free Tickets. Some Montana Lottery scratch games award free tickets as prizes. Net lottery ticket revenue does not include the value of free tickets given away and free plays won. The face value of these free ticket prizes distributed for the quarter and nine months ended March 31, 2004 was zero.

Promotional Credits. The Lottery issues promotional credits to retailers to be used to distribute free tickets to players. The tickets are distributed as part of a promotion run by the retailer, e.g., "Ask for the Sale" or second chance drawings. The Lottery also directly distributes scratch tickets for promotional purposes at trade shows, for media give-aways, and during new game introductions. The tickets distributed as a result of promotional credits are reflected as a reduction in revenue. The related prize expense and ticket cost for all promotions are reclassified as an advertising expense. For the quarter ended March 31, 2004, promotional credits resulted in a revenue reduction of approximately $15,143 and an advertising expense reclassification of approximately $10,907. For the nine months ended March 31, 2004, promotional credits resulted in a revenue reduction of approximately $41,205 and a prize expense reclassification of approximately $30,090.

Prizes. Expenses for scratch prizes are recorded based on the predetermined prize structure for each game. Expenses for lotto and Qwik Tix prizes are recorded based on the predetermined prize structure for each individual game. No prize expense is recorded for free tickets distributed.

Unclaimed Prizes. Prizes for the lotto games must be claimed within six months after the appropriate draw date. Prizes for scratch games must be claimed within six months of the announced end of each game. Qwik Tix prizes must be claimed within six months of the sale date. The unclaimed prize amounts are taken as a reduction in the Lottery Prizes Payable liability and the Prize Expense and are transferred to the State of Montana General Fund as a portion of the quarterly transfer. The amount of unclaimed prizes for all games is represented in the table below.

	Quarter Ended 3/31/04	Quarter Ended 3/31/03	Year To Date 3/31/04	Year To Date 3/31/03
Lotto	$160,627	$512,923	$903,427	$724,304
Scratch	(34,607)	146,044	55,512	220,246
TOTALS	$126,020	$658,967	$958,939	$944,550

2. SUMMARY OF ACCOUNTS

Cash and Cash Equivalents. Cash and cash equivalents consist of interest-bearing deposits with the Montana Board of Investments short-term investment pool, cash on deposit with a bank and cash on deposit with the Montana State Treasurer that is part of the State's pooled cash and is not separately identifiable as to specific types of securities. These funds are highly liquid and may be drawn on daily.

Cash and cash equivalents consist of the following:

	March 31,	
	2004	2003
Short-term investment pool	$2,162	$250,255
Cash on deposit with State Treasurer	(36,458)	131,592
Cash in revolving deposit account	10,000	10,000
Petty Cash	150	150
TOTALS	($24,146)	$391,997

Reference to the State of Montana's Comprehensive Annual Financial Report would identify the level of risk associated with cash and cash equivalents in the short-term investment pool and amounts retained with the State Treasurer. The bank balance of the revolving deposit account was $79,805 at March 31, 2004 and was covered by federal depository insurance. The carrying amount reported in the balance sheet for cash and cash equivalents approximates the fair market value.

Receivables. Receivables include $1,363,852, representing amounts due the Lottery for tickets purchased by retailers. An allowance for doubtful accounts is reported as net of receivables and is based on historical perspective. As of March 31, 2004 the allowance is $2,076. An allowance for ticket returns is also included in the receivables amount. This allowance represents a reduction in receivables at

March 31, 2004, for estimated ticket returns. This is an estimate based on returns received to date, as well as, an estimate of tickets unsold by retailers for games that have a public sale end date prior to April 1, 2004. The allowance for ticket returns is $210,636 at March 31, 2004. The return of vendor fees related to the allowance for returns is $17,588.

Inventories. Inventories consist of merchandise and supplies inventories. Merchandise inventory includes scratch tickets valued at $639,439 stored in the warehouse, at retailers prior to being activated by the retailer and with the marketing representatives. These ticket inventories are recorded at cost using the specific identification method and maintained on a perpetual inventory system. Tickets are charged to cost of tickets sold upon activation or after game end.

Supplies inventories include ticket dispensers, premiums and point-of-sale materials. At quarter end, supplies inventories totaled $67,755. These inventories are also recorded at cost using the specific identification method.

Other Current Assets. Other current assets consist of the following:

	March 31,	
	2004	2003
Prepaid Expenses	7,889	6,284
Employee Advances	4,800	5,682
TOTALS	$12,689	$11,966

Transfer Obligations. The account "Transfer Obligations" is $1,517,074 payable to the General Fund at March 31, 2004.

Compensated Absences. State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. With no limit on accumulation, sick leave is earned at 12 days per year. Upon retirement or termination, an employee is paid 100% for unused vacation and 25% for unused sick leave. The Lottery's liability for compensated absences is detailed below.

Balance June 30, 2003	Net Leave Earned/(Used)	Balance March 31, 2004
$185,339	$1,218	$186,557

Commissions. Section 23-7-301(10), MCA, provides retailers a commission on scratch, Qwik Tix and lotto tickets or chances sold. The Lottery Commission established this commission at 5% of the face value of scratch tickets activated by the retailers and the face value of Qwik Tix and lotto tickets sold. For the quarter

and nine months ended March 31, 2004 commissions totaled $481,634 and $1,599,502 respectively.

Included in this amount are retailers' bonus commissions on tickets sold based on incremental sales of scratch tickets. During the quarter and nine months ended March 31, 2004 retailers earned bonus commissions of $57,648 and $200,634 respectively.

3. MARKETING PRODUCTION EXPENSES

The Lottery has contracted with several vendors to provide marketing related services and materials. These services include media placement, creative design and layout, and media production. Those services and materials not included in the Advertising and Advertising Production expense categories are printing and ticket dispensers. The cost of these services and materials, included in Operating Expenses as Contracted Services and Supplies and Materials, are detailed below for the nine months ended March 31, 2004:

Printing	$49,384
Customer Display Units (CDU)	10,312
Ticket Dispensers	14,962
	$74,658

4. PAYMENTS TO OTHER STATE AGENCIES

The Lottery receives a variety of services and supplies and materials from other state agencies. These services and materials are detailed below for the quarter ended March 31, 2004:

Insurance	$ 16,939
Warrant Writing Services	387
Payroll Services	986
Audit Fees	22,527
Work Study Contracts	1,791
Computer Fees	18,974
Printing	2,494
State Accounting System Support	6,535
Supplies and Materials	5,434
Mail Processing Fees	4,451
Telecommunications	17,669
Public Relations	7,000

Administrative Service Fees	40,717
SWCAP and SFCAP	8,100
Other	2,670
TOTAL	$156,674

5. PRIZES

Paid Prizes. Section 23-7-402, MCA states, "A minimum of 45% of the money paid for tickets or chances must be paid as prize money". Prize expense is recorded based on the predetermined prize structure percentage for each game less unclaimed prizes. For the quarter ended March 31, 2004, the prize expense of $4,514,173 is 53.34% of net Lottery ticket revenue of $8,462,601. For the nine months ended March 31, 2004, the prize expense of $14,216,305 is 50.90% of net Lottery ticket revenue of $27,931,207.

6. TRANSFER TO STATE GENERAL FUND

Section 23-7-402(3), MCA, states "That part of all gross revenue not used for payment of prizes, commissions, and operating expenses, together with the interest earned on the gross revenue while the gross revenue is in the enterprise fund, is net revenue. Net revenue must be transferred quarterly from the enterprise fund established by 23-7-401 to the State General Fund." For the quarter ended March 31, 2004, the net revenue payable to the State General Fund totaled $1,517,074.

7. MULTI-STATE LOTTERY JOINT VENTURE

In November 1989 the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. Powerball, Wild Card, and Hot Lotto are the games jointly operated by the members, in which Montana presently participates. Each lottery participating in MUSL is represented on the Board of Directors.

The Multi-State Lottery Receivable with a balance of $1,294,228, as of March 31, 2004 is comprised of several reserve accounts, which are maintained by the Multi-State Lottery Association (MUSL). The balance of these reserve accounts is as follows:

Powerball Prize Reserve Account	$671,500
Powerball Unreserved Account	17,713
Powerball Set Prize Reserve Account	197,500
Wild Card Reserve Account	401,425
Hot Lotto Set Prize Reserve Account	6,090
TOTAL	$1,294,228

The Powerball Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Powerball game, assuming that no unanticipated prize claims have been paid. Interest earned on the Lottery's share of the fund, represented by the Unreserved Account, would be returned to the Lottery upon leaving MUSL. The amounts in the Unreserved Account may be used at the Board's discretion.

The Powerball Set Prize Reserve Account is used to fund prize payments for current drawings. Since the Powerball game has fixed prizes, it is often necessary to draw from this reserve to fund payment of prizes at the fixed amount. This account would be returned to the Lottery upon withdrawal from the Powerball Game.

The Lottery contributes to these reserve funds through the 50% set aside for prizes. In addition the Lottery was required to contribute for its portion of the reserve funds accumulated since the start of the Powerball game. The Lottery made this payment in full as of June 1990, through an additional 2% of drawing revenue rather than making a lump sum payment. Payments made to this fund are considered a portion of prize expense associated with the game.

The Wild Card Reserve Account is to be used in the event of an unanticipated prize claim on the Wild Card game. This account is also administered by MUSL and would be returned to the Lottery one year after the Wild Card Product Group of Idaho, Montana and South Dakota is disbanded. The Lottery contributes to this account through the 55% set aside for prizes. Payments made to this fund are considered a portion of prize expense related to the Wild Card game.

The Hot Lotto Set Prize Reserve Account is administered by MUSL and is to be used only in the event of unanticipated prize claims. Like other MUSL games the reserve amount would be returned to the Lottery one year after withdrawal from the Hot Lotto game. The Lottery contributes to the reserve through the 50% set aside for prizes. Payments made to the reserve are considered a portion of the prize expense related to the game.

8. GAMES

Currently, the Montana Lottery games are scratch ticket games, four lotto games referred to as Powerball, Montana Ca$h, Wild Card, and Hot Lotto and four instant play/instant win games referred to as Qwik Tix.

Scratch ticket games provide players the opportunity to win instantly by scratching a latex covering to reveal a prize.

The Powerball game allows players the chance to win a minimum pari-mutuel jackpot of approximately $10 million. A player must match all 6 numbers to win the jackpot; players win prizes ranging from $3 to $100,000 for matching less than all 6 numbers. Drawings are held twice weekly on Wednesday and Saturday nights. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot. In March 2001, the Lottery added Power Play to the Powerball game. For an additional bet, the Power Play option provides non-jackpot winners the chance to multiply their prize amount by a factor of two through five.

The Montana CaSh game allows players the chance to win a minimum pari-mutuel jackpot of $20,000. Players select 5 numbers from a field of 37 and must match at least 3 out of 5 to win a prize. Matching 3 of 5 wins $5 and 4 of 5 wins $200. The drawing is conducted twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

The Wild Card game allows players the chance to win a pari-mutuel jackpot, with a guaranteed minimum of $100,000. Players select 5 numbers from a field of 31 plus one of 16 face cards and must match all 5 numbers and the wild card to win the jackpot; players win prizes from $1 to $5,000 for matching less than all 5 numbers and/or the wild card. Drawings are held twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers and the wild card, the jackpot rolls over to the next drawing to create a progressive jackpot.

The Lottery introduced Hot Lotto on April 7, 2002. Hot Lotto allows players the chance to win a pari-mutuel jackpot with a guaranteed minimum of $1 million. Players choose 5 numbers from a field of 39 plus 1 Hot Ball number from a field of 19; the first 5 numbers and the Hot Ball must be matched to win the jackpot. Players can win prizes ranging from $2 to $10,000 by matching less than all 5 numbers and/or the Hot Ball. If no ticket wins the jackpot, it rolls over to the next drawing to create a progressive jackpot. Drawings are held twice weekly on Wednesday and Saturday nights.

Qwik Tix is a new product line introduced by the Lottery in February 2004. There are four games, each with its own play style and prize structure. The four games

are Lucky Numbers, a number match game; Hot Tac Toe, a tic tac toe grid; Jacks or Better, a poker game; and Montana Match, a match three symbols game. The Qwik Tix tickets are printed at the lotto terminal at the time of sale and can be redeemed immediately, with the maximum prize being $500. Each ticket costs $2 and consists of either two plays of a single Qwik Tix game or one play of a Qwik Tix game and one play of a related lotto game. The lotto games sold in this manner are exactly the same as lotto tickets sold separately and cannot be redeemed until the appropriate drawing.

9. COMMITMENTS - GAMING SUPPLIER CONTRACTS

Scratch Tickets. On June 27, 2001 the Montana Lottery Commission approved the award of a one-year contract with Oberthur Gaming Technologies Corp. (Oberthur) for the provision of scratch tickets; the resulting contract was signed on August 8, 2001. The contract is for one year with the option for six additional one-year renewals. The contract contains specifications regarding ticket design, printing, game ownership, inspection, and prize structure.

Oberthur, as the vendor, provided a performance bond covering the contract term and an errors and omissions policy covering an ultimate net loss of $7,500,000. The Lottery may terminate this contract by providing proper notification to Oberthur.

On-line Services. On August 18, 1998, the Lottery signed a seven-year contract with Autotote Lottery Corporation to provide an on-line gaming system and associated services beginning March 28, 1999. The contract provides for payments to be made for the purchase of an on-line gaming system including terminals and software. The Lottery paid Autotote Lottery Corporation $5,025,311 for the system on April 26, 1999. Payment under the contract is also based on 8.35% of weekly Lottery sales.

10. CONTINGENT LIABILITIES - PRIZE ANNUITIES

During fiscal year 1989, the Montana Lottery awarded four Big Spin Jackpot prizes totaling $5,000,000. The Lottery made the initial payments to the winners in the amount of $253,088 and on September 26, 1988 the Montana Lottery awarded annuities in the amount of $2,350,180 to Western National Life. Through these annuities, Western National Life makes the remaining payments to the Big Spin Jackpot winners. As of March 31, 2004 the contingent liability for future prize payments funded through the purchase of annuities was $697,500.

11. LOTTO*AMERICA/POWERBALL/TRI-WEST JACKPOT PRIZES

Jackpot prizes awarded in the Lotto*America/POWERBALL and TRI-WEST LOTTO games are funded through the purchase of U.S. Treasury Zero-Coupon Bonds purchased in the name of the Montana Lottery by MUSL. MUSL will cash the bonds each year as they mature and will wire the funds to the Lottery for payment to winners on the Anniversary date of the win.

On January 13, 1990 the Montana Lottery awarded its first Lotto*America jackpot prize totaling $1,740,000. The first annual payment of $87,000 was made on February 1, 1990. On May 9, 1990 the Lottery awarded a second Lotto*America jackpot prize of $3,000,000. The first annual payment of $150,000 was made on May 23, 1990. A third jackpot prize was awarded on February 2, 1991 for $7,360,000. The first annual payment of $368,000 was made February 15, 1991. On November 23, 1991 a fourth jackpot prize was awarded totaling $46,967,738.57. The first annual payment of $2,355,738.57 was made December 12, 1991. On April 11, 1992 a fifth jackpot prize was won totaling $2,000,000. The first annual payment of $100,000 was made on April 27, 1992.

On July 6, 1994 the Montana Lottery awarded its first Tri-West Lotto jackpot prize totaling $700,565. The first annual payment of $35,000 was made on July 26, 1994.

On July 22, 1995 the Montana Lottery awarded its first Powerball jackpot prize totaling $31,401,655.99. The first payment of $1,571,655.99 was made on August 8, 1995. On April 5, 1997 the Lottery awarded a second Powerball jackpot prize totaling $11,000,000. The first annual payment of $550,000 was awarded on April 18, 1997.

As of March 31, 2004 the combined total of future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds for Lotto*America winners was $20,779,731. The combined total of future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds for Powerball and Tri-West Lotto winners was $24,770,218.

On March 27, 1999 the Montana Lottery had a Powerball jackpot winner. The prize was $35.1 million ($19.35 million cash option). The winner chose the cash option and was paid a lump sum in June 1999.

12. LEASES

Rent. The Montana Lottery leases its office, administrative and warehouse facilities under a noncancelable lease agreement that is effective March 2002 through

February 2007. The monthly lease payments through February 2005 are $7,366 and will increase 1.5% per year.

13. LONG-TERM DEBT

Note Payable. A contract with Autotote Lottery Corporation required the purchase of an online gaming system including terminals and software. The Lottery paid Autotote Lottery Corporation $5,025,311 for the system by entering into a loan agreement with Norwest Investment Service, now known as Wells Fargo Brokerage Services, LLC. The loan will be repaid in quarterly installments of $286,394.30 over five years. The first payment was due July 26, 1999. The interest rate on the loan is 5.12%.

Maturities of Long-term Debt

Year Ended June 30,

2004	1,109,836
2005 and beyond	0
Total	$ 1,109,836

Alternative accessible formats of this document will be provided upon request.